



- 1625 Newton Avenue
- San Diego, California 92113
- Phone 619/578-7537
- [www.sdmodelschool.net](http://www.sdmodelschool.net)

# REPORT

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**ITEM 1**

**REPORT NO.:** SDMSDA 06-115  
For the Agenda of July 20, 2006

**SUBJECT:** OPA/ENA Committee Report

Should the San Diego Model School Development Agency (“SDMSDA”) Board accept the recommendation of its OPA/ENA Committee to terminate negotiations with CityLink Corporation and the City Heights Community Development Corporation?

## **BACKGROUND:**

Since early this year, the SDMSDA Board has been working on parallel tracks to designate a master developer for the Model School project and complete an Owner Participation process. Through these processes, two viable development proposals were identified. The CityLink Corporation team was selected as the top candidate for Master Developer through the RFP process and the City Heights Community Development Corporation/ Bridge Housing team submitted a competing proposal through the Owner Participation process that would encompass the largest development site in the project area (within the reduced scope). Because both development teams submitted worthy proposals and differences existed between the proposals, it became difficult to determine which should be selected. Each proposal had strengths that should be weighed and both could further the objectives of the Model School project.

As a result, the Board requested its OPA Committee to work towards reconciling the differences between the proposals and in bringing forward a recommendation to proceed. Despite several months of work, the Committee remained deadlocked on which proposal should be selected. At its April 6, 2006 meeting, the Board recommended that staff and the Committee work with the two development entities to determine whether the proposals be combined utilizing the strengths of each to deliver the best possible project for the community. At its June 22, 2006 SDMSDA meeting, the Board provided specific direction to the OPA/ENA Committee to finalize negotiations with two development teams and determine whether it is feasible to proceed with the project.

## **DISCUSSION**

Since the June 22 Board meeting, the OPA/ENA Committee has met on two separate occasions. At its last meeting, held on July 7, 2006, the Committee voted to recommend that the JPA cease negotiations with the development teams. As part of its deliberations, the Committee considered a number of factors; however, central to its discussion were financial considerations which led the Committee to the conclusion that the project had become financially infeasible.

Based on information submitted by the development teams, the SDMSDA Finance Committee has estimated a project gap of approximately \$24 M. Much of this gap represents elements of the project that will most benefit the community, such as retaining view corridor, providing canyon improvements and traffic calming, and providing sufficient affordable housing. All of these elements add significantly to the total development cost; however, these were elements that the Board felt strongly should be maintained as part of the overall plan for development. The Committee has worked diligently to identify sources to fill this gap. However, there are limited sources of public finance that can be allocated to a single project. As the need for public subsidy rises, the project begins to compete with other projects that can provide much-needed affordable housing or other amenities within the City.

One unanticipated change in the project scope came through the Owner Participation process when the City Heights Community Development Corporation (CHCDC) submitted a competing proposal to develop the R1/M1 site, of which they own approximately 30%. While the proposal was welcomed, it complicated the selection process. In response to Board direction, the OPA Committee worked to determine whether the development site could be shared by the two development teams or could be removed from the responsibility of the master developer. As part of this analysis, the Committee considered the development costs for both plans, land acquisition costs, benefits to the community, and other critical assumptions.

The Committee found that the R1/M1 site was the part of the project within the reduced project scope that allowed the best profit potential for a developer. With an already narrow margin, if the R1/M1 site was removed from its responsibility, a master developer would be unable to make sufficient profit to justify their involvement.

In considering whether the site could be shared by the development teams, a number of scenarios to divide the site were attempted. However, again, there were a number of complicating factors, such as the topography of the site, the priority for providing open space and a view corridor, and the provision of parking and its ingress and egress. The Committee found that all of the scenario would be required to compromise an essential element of the project plan or quickly become financially infeasible or logistically impossible.

Other unanticipated costs have also saddled the project plan. Since the project's inception, many the components of development have risen (and continue to rise) dramatically. Building materials, in particular, have skyrocketed since the project began. Copper, steel, and lumber among the building materials that have spiked as much as 70% just over the last year. These materials can comprise as much as 30% of the overall development costs. It is likely that these costs will continue to increase in the foreseeable future due to increasing pressures from foreign markets. As a result, it is safe to anticipate that project costs will continue to grow, continuing to stretch an already tight budget.

The Committee also looked at future, unknown costs. Since the project was begun, a debate has erupted around the issue of eminent domain. As of the date of this report there are a number of bills pending and a November ballot initiative that could significantly change the manner that eminent

domain can be utilized and the cost to the public. Under certain proposals, the costs for land acquisition could increase exorbitantly or even become impossible due to litigation. Needless to say, this unknown variable was unanticipated when the project was envisioned but could have grave consequences to its success.

After considering all of these factors, at the July 7, 2006, the OPA/ENA Committee voted to recommend to the JPA that negotiations with the development teams should cease. A further discussion of the implications of an affirmative vote to terminate the development negotiations is included in a companion report.

Respectfully submitted by,

Approved by,

Susan R. Tinsky  
Project Manager, SDMSDA

Elizabeth C. Morris  
Chief Executive Officer, SDMSDA

**Signature on File  
With Original Document**